THE ROLE OF FEDERAL GOVERNMENT IN THE FINANCING OF NEW COMMUNITIES

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PREFACE

During the post-World War II urban growth period in the United States new communities have been effective in diverting some population growth into new areas. Although these new communities are needed to relieve tremendous population growth in urban areas their construction has been hampered by serious financial difficulties. Private new community builders have found this type of development to be risky due to high land costs and slow returns on capital investment. The United States Government has been aware of these financial difficulties as well as the growing need for new communities and has, therefore, made available certain grants, loans and loan guarantees to assist developers of new communities. Even with this assistance available new community developers are experiencing financial difficulties and many will not consider using federal assistance. It is, therefore, the purpose of this thesis to analyze the role of the federal government in new community financing in the United States as it relates to earlier U. S. programs and foreign new community programs. Additionally, state and local governments will be studied in their role as a mechanism for carrying out federal new town programs. By making this analysis and comparison it is possible to discover why federal assistance is not being more widely used in new community development.

CHAPTER I

INTRODUCTION

In recent years many of the private developers of new communities have been experiencing serious financial difficulty even before completing the initial stages of their projects. The idea that government at all levels should support these private new community builders has gained recognition and support. In May, 1969, a group called the National Committee on Urban Growth Policy urged the federal government to help build at least 100 new towns of 100,000 population and ten larger cities within the next thirty years.[1] This committee expressed a need to tie the new town building program to development of a national urban policy. It urged creation of a federal policy planning group that would mold "a national policy" to achieve "more rational patterns of urban growth and development."[2]

The proposed new policy would include recommendations to overcome financial difficulties often met by private new town developers. Recommendations of the committee included plans to:

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[1] "A Strong Boost for 'New Towns'," Ill. Business Week, May 31, 1969, p. 50.

[2] Ibid.

> help developers with long-term loans, with payments deferred as much as fifteen years, to sustain initial development costs. These loans would go to new agencies, similar to New York's Urban Development Corporation... these agencies could offer prepared sites to private builders for development.[3]

This type of policy is not meant to usurp the role of the private developer because it is generally agreed that in the United States only big business has the money, management talent, and staying power necessary for new community development. However, public funds or guarantees could be used to add stability to the financing of new communities and thereby ensure financial success for prospective new community developers.

In the United States the anxiety for rational new community development is felt not only by policy committees and urban planners but also by the Department of Housing and Urban Development (H.U.D.). Recent legislation has led to the establishment of a New Community Development Corporation which will be administered by H.U.D. The program will provide varied types of assistance for the planning, acquisition of land, construction, and administration of new communities.[4]

According to H.U.D. officials, many inquiries have been made by possible new community developers wishing to

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[3]Ibid.

[4]Ibid.

apply for financial assistance under the Urban Growth and New Community Development Act of 1970. To date, only a few new communities have actually been started under this program. An obvious question, therefore, presents itself--why has this federal program, presently entering its fifth year, not made more commitments?

This question might be answered in terms of sociological and political problems facing a new federal program. In sociological terms, this program and others like it may be slow to start because new ideas are often opposed. Even with public interest in establishing an urban growth policy, the idea of the government providing financial assistance to new communities in the United States has not been widely practiced and is a relatively "new" idea.

A second answer to the previous question involves politics. In the past, public grants and loans have gone to "established" causes where pressure groups, power structures and, occasionally, need dictate. While federal guarantees have been available for new communities since 1966, there is no such "establishment" or power structure to support new communities and population redistribution.

Sociological and/or political problems have surely hindered wide acceptance of this program, however, the real problem with the program may go deeper than this. It is therefore the intent of the author to analyze the federal government's role in new community financing as compared to other new community programs in hopes that the following questions might be answered:

1. Is it necessary that the federal government offer financial assistance to private developers in creating planned new communities even if these developers could make large profits?

2. Since every new community is different both physically and financially does the federal government have enough flexibility to tailor an assistance program to meet the differing needs of each new community?

3. If new communities are needed in the United States and developers cannot build them alone, why doesn't the government put up all of the money and simply hire developers?

4. There are other levels of government so why does the federal government seem to be the only one offering assistance to developers?

5. Why doesn't the government just give developers tax breaks or surplus land to build their new communities on?

6. Will the federal government be responsive to the growing need for new communities or will it take a crisis before a large-scale program can be devised to finance and build new communities?

These questions and others will be answered in the following pages by examination of available information on this subject. For the purpose of this analysis new communities or new towns are defined herein as, "large-scale developments planned to provide housing, employment, and a system of integrated facilities and services within self-contained environments."[5] The analysis will be divided into five basic areas each being treated as a chapter.

Chapter II will examine government involvement in new community financing in Great Britain, Sweden, France and Finland. These countries have had a great deal of experience in building new communities and none of them have an identical program. Their experience in creating programs to deal with financing and building new communities will provide a good basis for comparison with the United States new community program.

Chapter III will examine the evolution of new community building in the United States. This analysis will begin with the first new community program involving federal monies, the Greenbelt New Town Program, and point out its successes and failures. This chapter will also examine the New Community Development Acts of 1966, 1968, and 1970 and analyze each program. The evolution of new community building in the United States has also involved certain public corporations and various departments of state and local government as mechanisms for implementing federal new

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[5] Lieberman, Myron, "New Communities, Business on the Urban Frontier," Saturday Review, May 15, 1971, p. 20.

community financing programs. Several of these will be studied.

Chapter IV will utilize information from Chapters II and III to compare the role of government in new community financing in each of the countries analyzed. In order to compare the program in each country it was necessary to find a common denominator. The author felt that basic elements of a program such as land acquisition, planning, public utilities, housing, shopping, etc. formed the common denominator. A comparison was then made as to sources of funds for these elements and methods used to implement the programs. These programs were then categorized according to the degree of overall government involvement. This comparison is then followed by a discussion of each category.

Chapter V utilizes the comparative analysis in the previous chapter to define alternatives for government involvement in financing new communities in the United States.

Chapter VI asserts conclusions drawn from the total analysis. These conclusions define what responsibility our government might have in new community financing and answers questions stated at the beginning of this introduction.

CHAPTER II

GOVERNMENT INVOLVEMENT IN THE FINANCING OF NEW COMMUNITIES IN SEVERAL EUROPEAN COUNTRIES

New community development, in the past, has been extremely risky for private developers due to two problems. The first and foremost problem encountered by private enterprise has been inadequate available financing for such basic elements as land, planning and public facilities. Without these elements the development of a new community cannot begin. The second problem area has been the long-term nature of new community building. The relatively slow return on capital investment, sometimes ten to fifteen years, has made it difficult to find investors willing to wait for a profit.

More attention has been given to alleviating these problems in countries where there is a land shortage and a rapidly increasing population. Western European countries, for example, have had to resort to large-scale governmental assistance programs to make it financially feasible for developers to build new communities. The most common forms of public assistance have been grants, loans, and technical assistance. These types of assistance have been used primarily in Great Britain, Sweden, France and Finland.

Because of different political and economic situations in each of these countries the programs and methods used to finance new communities have varied. An examination of the experience in each country will help determine how government can affect the financing of new communities.

Great Britain

The first British new communities, Letchworth and Welwyn Gardens were privately financed ventures under the supervision of Ebenezer Howard. They were designed as self-contained communities each with its own shops, factories and housing. Letchworth, initiated in 1903, was to be financed with capital borrowed from Howard's personal friends and various other sources.

Howard's company retained ownership and leased building sites to individuals thereby expecting an almost immediate return on capital investment. The growth of Letchworth, however, was slow due to its poor location and unattractive site. In addition, initial land costs were high and heavy interest rates charged on ensuing mortgages created financial problems for the company. As a result it was over forty years before investors were repaid from accumulated dividends.

The second new community, Welwyn Gardens, suffered the same financial difficulties. It was started in 1920 with a slightly different operating policy. The development company intended to actually build many of the commercial and industrial facilities and let them out on short term leases. This new town was also quite slow to develop due to a lack of front money or "bridging finance"[6] as the British call it.

Letchworth and Welwyn Gardens were the relatively unsuccessful forerunners of the massive British new town building program initiated in 1946. Following World War II Great Britian's rebuilding program included the New Towns Act of 1946. This act authorized the establishment of a national development corporation which is a public body "combining characteristics of governmental and private enterprise."[7] Basic tenets of this program were derived from reports by a special committee organized to study problems involved in new town building. Concerning new town financing the committee made the following recommendations:

> (1) Funds for a government sponsored corporation should be advanced by the Public Works Loan Board or the Exchequer and if necessary, payment of interest deferred in the early years.
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> (2) The Public Works Loan Board should be empowered to advance money to a local authority sponsored corporation; or to the local authority or authorities sponsoring that corporation.

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[6]Gordon Edwards, Land, People and Policy, (West Trenton, New Jersey: Chandler Davis Printers, 1970), p. 39.

[7]"The Administration of the English New Town Program," Washington University Law Quarterly, Vol. 1965, No. I, (February, 1965), p. 19.

(3) The terms upon which any advances are made by the Public Works Loan Board to an authorized association should vary according to the structure and control of the association.

(4) The agency should be put on the same footing as local authorities for receiving subsidies and grants in appropriate cases.

(5) The investment of the new towns will be large; in the main it is not an addition to the aggregate national expenditure on rebuilding but is an alternative allocation thereof.

(6) Adequate finance is necessary for all the various classes of expenditure involved.

(7) The government sponsored corporation should be financed by the State, and there should be relief from payment of interest during the early years of development.

(8) After payment of interest and amortization charges, any surplus should be applied for the public benefit.

(9) The corporation should have powers to borrow, make advances and establish subsidiaries.

(10) The corporation should not be at a financial disadvantage compared with other housing agencies as to subsidies.

(11) Where houses are built by the corporation expressly for a dispersing authority the Exchequer subsidy should be paid to the corporation, and an agreement made with the authority as to rate contribution.

(12) Where houses are built by the agency for other persons the Exchequer should pay to the agency the Exchequer subsidy and equivalent of the usual rate contribution.

(13) The corporation should not be treated less favorably than existing towns in the matter of grants for amenities.

(14) Local authorities should have power to finance corporations sponsored by themselves.

(15) Authorized associations should be financed as recommended in the previous sections; such associations should be entitled to subsidies.[8]

Based on these recommendations the New Towns Act of 1946 established the development corporations which were to be controlled by the national government of Great Britain. The British Government, through the Minister of Treasury, provides the capital for new community development. Specifically, the corporation borrows the necessary funds directly from the Treasury and is allowed to borrow the money at an interest rate less than a conventional loan. At the time of the loan the Public Works Loan Board determines the interest rate with concurrence of the Treasury. Loans are generally long-term agreements and repayment can take up to sixty years. Additional flexibility is given the development corporation because it can hold funds for up to seven years before it must be expended on the proposed development. This delay of expenditure prevents capital from being tied up too far in advance of the proposed development.

In addition to capital loans, the corporations are eligible to receive direct grants from the central government to defray the revenue deficit of the corporation until the new community can show a profit. Two types of grants have been used in Britain's new community development. The first

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[8] Sir Fredrick Osborn and Arnold Whittick, The New Towns, Answer to Megalopolis, (New York, N. Y.: McGraw-Hill Book Company, 1963), pp. 350-351.

is fifty percent of the revenue deficit for the first year of the community's existence and twenty-five percent for the second year.[9]

The second grant is used most often due to the low margin of profit in housing as compared to industry and commerce. This grant amounts to approximately one and one-half percent annually of the cost of houses built and not disposed of through sales or lease for longer than seven years.[10]

Government grants are also available to the development corporation for the capital cost of housing construction. Until 1965, housing built for rent was eligible for a fixed government subsidy of seventy-two dollars, per unit, per year but the current subsidy approximates four percent of construction costs of the rental units. As a general rule the corporations use this subsidy to standardize rents for similar units built by different developers. This is, in effect, a rental assistance program for families with extreme hardship.

The New Towns Act of 1946 also provided subsidies for industrial relocation. The central government, through the Board of Trade, was given permission to issue grants to industries that would relocate into development areas such as new communities.[11] These grants amounted to

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[9] Ibid. The New Towns Act, 1946; Section 4(6).

[10] Ibid.

[11] Ibid.

twenty-five percent of building costs and up to forty percent of costs for new manufacturing plant and machinery. As an additional incentive the government offered to pay each company two-hundred and forty dollars per year for every person recruited plus twenty-four dollars a week for each person being trained for a new job.

The central government in Great Britain ensures comprehensive development in new communities through their management capabilities and through grants and loans. Most work, however, is accomplished by private contractors and individuals. As an example, most new community housing has been developed privately but only on land leased or sold by the development corporations. Likewise, most commercial and industrial buildings have been developed privately on leased or purchased property.

Further decentralization of new community development is evidenced by the construction of utilities. Existing utility companies have normally undertaken the installation of electricity, gas, water and telephone services. In several cases tie-in utility service was not readily available in the area of the new communities so the development corporations became the authority for the purpose of developing the service. Financing of these facilities was usually transferred to the new community through user charges.

Similarly, the development corporations have had to rely upon existing local authorities to provide public buildings, roads, schools, police, fire and health facilities. In most cases central government loans and grants have been available to local authorities for assistance in the construction of these facilities in new communities.

Great Britain's experience in new community building evolved from many mistakes in the beginning stages of the program. Their new community program began with minimum government participation in financing. Private enterprise was expected to provide most of the capital involved in planning and building the new communities, which the British central government found to be too slow and expensive. Consequently, with the enactment of the New Towns Act of 1946, changes in financing and management of the program alleviated many of the problems hindering them earlier. The new community program, as it exists in Great Britain today, probably has a greater level of government participation than might be acceptable in many countries, however, it does seem to be the foremost new community program.

Sweden

Sweden does not have a national new towns program such as the British program. The planning and building of new towns is, instead, a part of the regional policy plan for Stockholm. This regional plan calls for the building of numerous self-contained "planned garden cities" within commuting distance of Stockholm.[12] To date, four new communities are in varying stages of completion; they are Vallingby, Farsta, Arsta and Grinthorpe.

The development of these new communities, as in Great Britain, has been accomplished through development corporations. The British development corporations are instruments of the central government, whereas in Sweden they can take several forms:

> "The Swedish Development Corporation can be a local municipal corporation, an authorized non-profit housing association, a private commercial firm, or a combination of all of these."[13]

The British program emphasized central government control and ownership of the rights to develop new towns, whereas, in Sweden the national government exerts no direct influence on new community development except through its financing provisions.

Because of the different types of development corporations involved with new community building, provisions for national financial assistance vary. In the case of a municipal development corporation, financing for new community construction can be assisted either by government subsidy or long-term low-interest government loans.

Land utilized in new community development is usually

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[12] Development Corporations, The Maryland National Capital Park and Planning Commission, (November, 1968), p. 11.

[13] Ibid., p. 8.

in municipal ownership. Existing laws in Sweden, similar to eminent domain laws in the United States, allow municipal development corporations to purchase land in advance and hold it for planned developments. In order to help finance these acquisitions the municipal development corporations can obtain special loans from the government. A loan fund of almost sixteen million dollars has been established for this purpose, but this covers only a part of the municipal development corporation's costs. Additional sources of funds come from local taxation.

Once land is assembled and plans for the new community are completed, much of the land is sold, outright, to developers. Where land is leased, the municipal development corporation usually obtains advanced site lease loans from the government covering ninety-five percent of the estimated development costs.[14] The remaining five percent and any other costs must be financed from taxation. Lease agreements are then adjusted to cover loan repayment plus profits and operating costs.

It is not the actual development costs that present the main financial burden but the municipal investments in public facilities and amenities. Due to the limited availability of government loans at least fifty percent of the

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[14] U.S. Department of Housing and Urban Development, Office of International Affairs, Financing New Communities, (U.S. Government Printing Office), May, 1973, p. 42.

investments in infrastructure must come from local taxation. This again places a great burden upon local government due not only to the initial cost outlay but also the time lag before utility revenues approach government loan repayment costs.

Subsidies for home mortgages and government loans for modernization are also available. It has been estimated that approximately nine-tenths of all new housing is financed by government loans while the remaining one tenth is financed by loans obtained on the open market.[15] Government loans for a particular project vary according to amounts and types of ownership. Subsidies for low and moderate income family housing are usually in the form of interest rate supplements which also vary according to family size, income, etc.

Some subsidies are also available for extension of rapid transit lines and major thoroughfare construction. Additionally, government loans are available for the construction of public buildings, secondary roads, and other basic public facilities.

All requests for subsidies or government loans are initiated by the Municipal Planning and Building Council. This publicly appointed body has the overall responsibility for physical planning, construction, and architectural design review for new communities and other development within

[15] Ibid.

metropolitan areas. Requests for subsidies and loans are then reviewed by the Royal Board of Housing (under the National Ministry of Social Affairs) through branches at the county level.[16] With approval of the Treasury, disbursement is then made for the requested subsidies and/or loans.

A second form of corporation involved in new community construction in Sweden is the private development corporation. According to the Stockholm Regional Policy Plan only municipally owned land can be used for new community construction. A private development corporation must therefore lease land from the Municipal Planning and Building Council after receiving approval of its new community plan. In Sweden private new community development corporations are not eligible recipients of government subsidies or government loans.

The non-profit cooperative housing association is the third form of building corporation in Sweden. Basically a non-profit building society, it consists of many individuals interested in construction of low cost housing. Most of the financing necessary for these large-scale cooperative housing projects is provided by individually secured private loans. Since the cooperative housing society is a non-profit corporation it is eligible for either government long-term low interest loans or direct government subsidy.[17] When

[16]Ibid., p. 12.

[17]Ibid., p. 13.

sufficient government and private capital is raised, the cooperative housing society then contracts with private developers to actually do the construction. Any such construction is also supervised by the Municipal Planning and Building Council.

The most important feature of Sweden's new community building program is the municipal land acquisition policy. With municipal ownership of land and with effective control by the Municipal Planning and Building Council the new community builders have enjoyed the convenience of plenty of low cost land. The high speculative land costs usually associated with new community building have not obstructed the efforts of Sweden's new community developers. While the Swedish national government has a secondary role in new community financing, it is an important one. The availability of national subsidies and long-term low interest loans has aided developers in meeting the front end costs of new community development.

France

France, like Sweden, has a limited new community program. The only notable example of French new community planning is Le Mirail, a suburb community of Toulouse. This new community is similar to those in Sweden in that Le Mirail is within the metropolitan area of a major city. Although Le Mirail is not proposed as a self-contained new community, the projected population of 400,000 makes it a major undertaking for French new community builders.

All planning, financing and construction of French new communities falls under the aegis of the national government. Specific responsibility for these functions is given to the Ministry of Construction and its National Planning Committee.[18] It includes the establishment of new community development corporations, the granting of authorization for municipalities to prepare and execute plans, purchase of land and the financing of new community development.

In France, as in Britain and Sweden, the vehicle for new community development is the development corporation. Under French law the Ministry of Construction and the National Planning Committee have a choice between two alternative development vehicles: the public development company, and the mixed-economy company.[19] The mixed-economy company is owned fifty-one percent by local government and forty-nine percent by private interests. In practice, however, the mixed-economy company has operated more effectively in established communities with large tax bases. As

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[18] Shadrack Woods, "Le Mirail, A New Quarter for the City of Toulouse," Washington University Law Quarterly, February, 1965, p. 5.

[19] Fain, William, Jr., "New Towns in Britain and France," The Architectural Record, (McGraw-Hill Publishing Co.), December, 1973, p. 140.

a vehicle for developing new communities the mixed-economy company faces several difficulties,

> "First, projects must be instigated by local authorities, which is difficult when a large number is involved. Second, local authority must insure loans and take financial risks, a responsibility they often cannot accept. Third, since central government expenditures are exceptionally high in new town investment, it is undesirable to leave decision-making up to local and private enterprise. Fourth, since there is no central government representation in the mixed-economy company, essential communication links between state, regional and local governments are hard to maintain."[20]

Because of these drawbacks of the mixed-economy company, the public development company has been adopted as the mechanism for developing new communities.

The public development corporation acquires land and develops it with the needed infrastructure. Like Sweden's municipal advanced land acquisition policy, France's development corporation can build up land reserves (Z.A.D.'s or deferred development zones). The corporation has at its disposal a legal ability to establish fair market value of properties in its territory and the right to pre-empt any land sales or transfers. The corporation can also sign agreements with other developers or public agencies to develop what is known as concerted development zones (Z.A.C.'s), areas designated for immediate development.

Government financing of land acquisition is not as

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[20]Ibid.

clearly defined as it is in Great Britain. Government funds in France are usually used to buy land located in the core of the new community and this becomes the property of the government. In addition, six year loans are available to the corporation for use in purchasing land for housing. Repayment of these loans is deferred for three years and interest on them is a nominal two and three-quarters percent.[21]

Loans for industrial sites are almost never financed by the government. The corporation must seek funds on the open market with interest rates averaging five and one-half percent.[22]

The financing for the development of acquired land is also more complex than in Great Britain. Major thoroughfares are usually financed up to fifty-five percent by the Ministry of Equipment and Housing. The additional forty-five percent is financed by local and district authorities. The primary sewage system has usually been financed jointly by the Ministry of the Interior and the Ministry of Finance.

Upon completion of the new community's infrastructure and basic facilities, the development corporation sells portions of the new community site to various private builders. The builders then become owners of the resubdivided parcels and are required to build housing, commercial or

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[21] Ibid.

[22] Ibid.

industrial developments according to the land use plan. Because of the government funds used to provide site improvements, the builder is not required to invest in public improvement of his parcel. This provides the builder with a tremendous savings and, in turn, reduces overall housing costs in the new community.[23]

The building of new communities in France has not yet approached the scope of the British new community program. The limited French experience does, however, offer an interesting variation in government participation in the financing of their new communities. By concentrating government funds in the building of public facilities and utilities, land improvement costs are not incurred by private developers, hence, lower costs for housing, commercial and industrial sites.

Finland

Finland, to date, has successfully completed only one new community--Tapiola. The success of Tapiola has been attributed both to its founder, Heikki Von Hertzen, and the National Housing Foundation. The National Housing Foundation was the organizational vehicle for developing this new community. Unlike Great Britain's publicly appointed development corporation, Finland's corporation is a totally private body and can receive government assistance, but only

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[23] Ibid., Development Corporations, p. 26.

after government approval of all new community plans.

The new city of Tapiola has been considered by many experts to be one of the finest developments not only in its planning and architectural success but also its financial success. According to Frederick Gutheim, Tapiola is, "Europe's most convincing effort in new town building," and he goes on to say that the National Housing Foundation is,

> "an alternative to unabridged private skimming from the metropolitan housing market on the one hand, or the morass of timid borrowing too-little-too-late actions of many government agencies that have attempted new town building."[24]

Although the National Housing Foundation is a self-financing non-profit organization it has received a great deal of financial assistance from the national government. Housing subsidies have been available for new home owners in a new community. These subsidies are actually funds which have been borrowed from the government by the National Housing Foundation. These loans have a maximum amortization period of forty-four years. For the homeowner, the subsidies reduce the purchase price of a new home by about thirty percent and reduce interest on mortgages by, "one percent during the first five years and three percent thereafter."[25]

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[24]Frederick Gutheim, "Continental Europe Offers New Town Builders Experience," Taming Megalopolis, (ED), M. W. Eldredge, (N.Y.: Praeger, 1967), Vol. II, pp. 828-838.

[25]Gurney and Breckerfeld, Columbia and the New Cities, (New York, N. Y.: Ives Washburn, Inc., 1971), p. 97.

The relative success of Tapiola has brought about plans for at least seven more new towns in the Helsinki metropolitan area. The National Housing Foundation will be the corporation managing all new town development. It will locate each new town site without direction from the government and will negotiate and purchase all necessary land. Once a comprehensive plan has been developed for each town it must then be approved by the government. Upon approval of each comprehensive plan the government will make the development eligible for loans through the National Housing Foundation.

The loans made available to the National Housing Foundation have been very important in the development of Tapiola as they assisted in gaining high levels of home-ownership. This assistance, however, represents a limited commitment on the part of Finland's national government to assist in new town development. Because there are no grants available for such facilities as roads, sewerage or water lines, the cost for such facilities must be borrowed and the interest on such loans must be passed on to the users.

Finland's first new community--Tapiola--is generally considered to be financially successful. Its success, however, must be attributed to good fiscal management by the National Housing Foundation. National loans have certainly helped in the building of Tapiola, but in terms of the country's overall new community building program there is not the depth or the financial commitment as is found in Great Britain. From this analysis it is evident that the role which the Finnish national government plays in new community building is somewhat limited.

Summary

The four countries analyzed in this chapter have each had interesting variations in building and financing new communities. Great Britain's comprehensive national program has established government sponsored development corporations to plan and finance new communities. Subsidies for many elements of new communities as well as loans are available directly from the central government. Sweden's new community program, however, is basically a regional housing plan for the Stockholm area. The vehicle for planning and building new communities can be a local municipal corporation, a non-profit organization or a private development company. Municipal and non-profit organizations can receive loans and some subsidies from Stockholm's Municipal Planning and Building Council which requests them from the central government. In France either the public development company or a mixed-economy company (51 percent public interest and 49 percent private interest) can plan and build new communities. Subsidies and loans for the construction of public facilities are available from the Ministry of Construction. In Finland the primary vehicle for new community building is a non-profit development corporation--The National Housing Foundation. Loans for financing public facilities are available to the National Housing Foundation for individual projects.

In all four countries private developers play an important role in the financing and actual development of new communities. Except for the government subsidies and loans available in these countries, most funding is obtained from banks and other lending institutions.

CHAPTER III

GOVERNMENT INVOLVEMENT IN THE FINANCING OF NEW COMMUNITIES IN THE UNITED STATES

The United States Government, until recently, left the development of new communities to private enterprise. In only a few cases has the federal government been involved in new community financing or development. The most notable was the Greenbelt New Town Program initiated shortly after the depression to aid in social and economic recovery.

The Greenbelt New Town Program

The Greenbelt Towns are not considered to be comprehensive new communities such as those found in Great Britain or Sweden. They are, however, large-scale housing developments which are relatively self-sustaining towns. Unlike the British new community program, the Greenbelt program of the New Deal era was not outlined in its entirety in a special statute enacted for that purpose. It was, instead, established by order of the President under general authority given him by the Emergency Relief Appropriations Act of 1935. This act contained no provisions for the development of new communities as such but made general appropriations for housing construction; the building of highways, roads, and streets; irrigation and conservation projects; and other relief projects.[26] Congress consequently appropriated almost five billion dollars of which four-hundred and fifty million was allocated specifically for housing. This act gave the President full authority to determine what programs would be carried out, to select the agencies to plan and execute the programs, and to prescribe rules and regulations to govern the actions of these agencies.

The Greenbelt towns which cost approximately three-hundred and seventy-six million dollars were financed completely by federal funds appropriated under the Emergency Relief Appropriations Act. Within the Resettlement Administration a special division, the Finance and Control Division, was created to administer the financial affairs of the agency.[27] Three subdivisions--finance, control, and inspection--were responsible for different phases of the program. The finance subdivision received requests for general allocations and administered the funds until they were dispersed for specific projects. The control subdivision examined project plans, determined financial feasibility of the projects, and made recommendations to the administration on allocation requests. The inspection subdivision, which maintained a regional office at the site

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[26] J. R. McFarland, "The Administration of the New Deal Greenbelt Towns," AIP Journal, (July, 1966), p. 222.

[27] Emergency Relief Appropriations Act, Chapter 48, 1, 49; Statute 115 (1935).

of each Greenbelt town, was responsible for inspection of materials and supplies as they were purchased. This subdivision also examined all completed dwellings before tenants were permitted occupancy.

The financing of the Greenbelt towns was divided into three phases: appropriations for front-end investment; government management of investment in the communities; and, government liquidation of its assets in the communities.[28] Phase one of the program originally involved the selection and purchase of sites for eight new communities. Due to inadequate funds only three towns reached fruition. The sites selected and eventually completed were the towns of Greenbelt, Maryland; Greenhills, Ohio; and Greendale, Wisconsin. The front-end costs for site selection, infrastructure, and basic construction were financed entirely from federal appropriations.

Phase two of the program involved the selection of tenants (mostly low-income workers), organizing town government, and maintenance of federally funded facilities. During this phase, the government's financial investments were protected through fiscal management.

Phase three of the program included the liquidation of government holdings in the three Greenbelt towns. This meant that the government no longer owned the towns in

[28]Ibid., McFarland, p. 223.

entirety. The undeveloped lands of each town were sold to a private non-profit development corporation which by virtue of its interest exercised considerable control over new development. Large greenbelts were retained and development was phased in orderly stages.

An outstanding feature of the Greenbelt towns was the intensity of federal financial participation. The availability of large sums of federal money allowed quick assemblage of all necessary property. Because property owners and speculators did not have time to inflate land values, it was purchased at a minimal cost. Similarly, time and money were conserved as a result of the government actually building houses, commercial facilities, municipal buildings and providing public utilities.

The Greenbelt new towns had many problems in planning, financing and continued growth. One major handicap of government financed new towns is that federally owned land is not subject to local taxation. Franklin Township, one of the original eight planned new towns, was discontinued in the early stages of planning. The township claimed that development of the new community would cause an immediate loss of one-fourth of Franklin Township's taxable real estate and would eventually lose three-fifths of its taxable land. It also claimed a publicly financed new town would result in an increased cost for provision of health, police, fire protection, utilities and road maintenance thereby creating an undue tax burden.[29] As a result of this, Franklin Township brought suit against the federal government and subsequently won its case.[30]

As a final result of this the Resettlement Administration dedicated federally owned utilities, streets and buildings to the local governments in each of the three remaining new towns and gave them responsibility for maintenance of municipal services. The fundamental lesson of the Greenbelt towns is that the federal government cannot simply put up the necessary money and just hire developers to build the new towns.

> "The new town should be planned for profit, or everyone, including the federal government, will stand to lose."[31]

Although the Greenbelt towns were federally financed they are not considered to be as comprehensive and self-sustaining as the more recent communities aided by the federal government under the New Community Development Acts.

The New Community Development Acts

The lessons of the Greenbelt towns are particularly significant in light of more recent trends in new community development. The Urban Development Act of 1966, Title II

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[29] Ibid., p. 218.

[30] Franklin Township v. Tugwell, 85 F. 2d. 208 (DC Cir. 1936).

[31] Gordon Edwards, "The Greenbelt Towns and the American New Towns," AIP Journal, July, 1966, p. 227.

was the first major step taken to aid local government and private developers in new community construction. Title II offered FHA mortgage insurance and FNMA (Federal National Mortgage Association) back-up for privately financed new communities near metropolitan centers and long-term loans to local government for acquisition of land. Therefore, the basic objectives of the Urban Development Act of 1966 and Greenbelt new town program are similar:

> A better deal for urban Americans and more choice for city families, particularly low-income families, by building new towns in the green countryside beyond the squalor of the city.[32]

Even though the objectives of the two programs were similar the methods used to attain the objectives were quite dissimilar. The major difference between the two programs was the role of private industry in planning, financing and building the new community. The Greenbelt towns were planned, financed and built by the government (Resettlement Administration) whereas, under the new communities program the federal government provided financial backing and relied on private industry to provide initiative and managerial skills necessary to actually build the towns.

Title II also authorized loans to cities and counties desiring to build new communities. The federal loan could

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[32]Gordon Edwards, "Comment--The Greenbelt Towns and the American New Towns," AIP Journal, (July, 1966), p. 225.

equal the cost of land acquisition including capitalization of interest with a delay of payment for fifteen years. The Title II program did not make available loans for such improvements as streets, water and sewers, but instead it relied upon other federal programs for this type of assistance. The main thrust of this program was to encourage new community development by providing funds for local public agencies to acquire land which would, in turn, be sold to private entrepreneurs for development.

Critics of the Title II program insisted that the financial stimulus was not adequate to arouse the profit motive of private developers. As these critics were generally correct, a new bill was passed in 1968 to provide more stimulus.

Title IV of the Housing Act of 1968 broadened the scope of federal financial support for new communities. It allowed the Department of Housing and Urban Development to guarantee and enter into commitments to guarantee the bonds, debentures, notes and other obligations issued by private developers to help finance new community development projects. It was necessary to extend guarantees to developers because experience had shown these developers to be having financial difficulties. The first major problem involved the large initial capital investment required for new communities. It has been estimated that land acquisition alone amounted to $25 million at Columbia, Maryland, $13.2 million for Reston,

$32 million at Westlake Village, California, and $40 million at Park Forest South, Illinois.[33] Moreover, costs for basic public facilities are much greater. Federal grants and loans alone were not sufficient to produce the necessary capital to finance the early stages of new community building.

Additionally, these guarantees were needed because experience from other new communities had shown there to be a period of from ten to fifteen years before initial returns on this type of investment can be expected. Because of this time lag lending institutions were reluctant to lend the developers the necessary capital, thus forming the second major problem to developers.

A third problem which developers were incurring involved the irregular pattern of cash returns characteristic of new community development. Real estate sales do not follow a predictable schedule; therefore, cash returns cannot be predictable. Loan repayment schedules have often not been met by developers because of this irregular pattern. With federal guarantees, lending institutions would be more likely to lend the necessary capital for new communities knowing that if a developer defaulted on his loan that the loan would be repaid by the government.

The fourth problem for new community developers has been the difficulty in marketing their product. Developers

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[33] Anthony Downs, "Private Investment and the Public Weal," Saturday Review, May 15, 1971, p. 26.

of subdivisions or similar smaller developments generally have an existing market in the community in which they are building. New community developers, on the other hand, must create a market by advertising in a much larger area. In this respect a new community developer is a market maker and must offer a larger product that is in some ways superior to other existing communities. This has also added to the time lag discussed above.

The Title IV program provided for federal guarantees not to exceed $25,000,000 for developer's obligations in any new community program approved by the government. The purpose of these guarantees was to assist developers in obtaining loans to finance the front-end costs of a new community. Under the Title IV program the Department of Housing and Urban Development could guarantee up to a maximum of $250,000,000 or approximately 10 new communities.

This program, once initiated, ran into problems because experience from privately financed new communities showed that the $25,000,000 guarantee was not enough to cover the front-end costs of most new communities. Another difficulty encountered involved the "strings attached" to the federal guarantees. The Department of Housing and Urban Development required that new communities receiving federal guarantees be developed with open housing policies to achieve a racial mixture. In addition, developers had to agree to develop a minimum of 20 percent of the housing for low and moderate income families. While there were many inquiries about this program, only two new communities were actually started with these federal guarantees.

The problems which private developers were encountering in trying to develop new communities without adequate federal support sparked a number of studies to analyze these problems. One such study was conducted by the American Institute of Planners (AIP). The following excerpts from their study identify some of the limitations affecting private new community developers:

> (1) Current methods of financing land acquisition and development are inadequate. It is difficult to arrange financing for land acquisition and infrastructure costs that provides sufficient capital and flexibility to make the heavy financial commitment necessary in new community development.
>
> The requirements of initial debt and uncertain rate of repayment run counter to traditional attitudes toward financing real estate ventures. Most financial institutions are prohibited by law from making loans involving any sort of speculation. The proportion of their investment portfolio devoted to real estate ventures of any sort is restricted by law, and regulations concerning cash reserves limit the total pool of dollars. But more important, their investment objectives usually require consistent, predictable current returns. When financial institutions make loans for land acquistion and development, they require conventional terms which stipulate a fixed schedule of repayment with principal and interest often due during the critical early stages of development. This drains his peak debt and severely hampers his ability to wait for returns which is essential in financing a new community.
>
> (2) There is no vehicle by which private enterprise may acquire land for new communities on a rational basis. Except for the occasional accident of a large parcel of land under single

ownership, it is almost impossible to acquire land for new communities on a rational basis; that means a rational size, shape and location, at a rational price or financing plan and with a rational arrangement of rights to the property.

(3) The capacity of local government to supervise and serve the creation of a new environment is limited. Local governments are generally not equipped with the type of zoning and development standards that permit the density, diversity and flexibility required to plan and execute a single project of thousands of acres of land at a rapid pace over a great number of years. More importantly, local governments are usually not inclined or capable of preserving a new community project with infrastructure and amenities at a quality and pace required by the private developer to attract housing and jobs. The ability of local governments to finance costly improvements through tax-exempt bonds is restricted by state laws. Therefore the private sector must absorb the cost of major components of the physical facilities system for a new community that would be the financial responsibility of local government if the area were to develop by "normal" processes of urbanization.[34]

Due to the evident limitations of these new community development programs and due to the growing need for more new communities a great deal of legislation was started in early 1969 to revise the program. For example, the recommendations of the previously mentioned National Committee on Urban Growth Policy created the foundation for the Ashley-Sparkman Bill which was introduced into Congress in 1970.

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[34] New Communites: Challenge for Today, An American Institute of Planners Background Paper--Number 2, (October, 1968), pp. 23-25.

This Bill proposed the following:[35]

(1) Create a Community Development Corporation to provide financial assistance for planning, land acquisition and some community facilities to public or private developers for new communities. This provision is similar to the H.U.D. New Communities program in concept except that the responsibility would be placed in a separate corporation rather than an existing federal department.

(2) Create a Council on Urban Growth in the Executive Office of the President to analyze and evaluate environmental trends, land use and population information, and formulate and recommend national urban growth policies.

(3) Amend Title I of the Housing Act of 1949 to encourage inner city development, or new towns in town, including use of air rights.

(4) Provide assistance to state and regional bodies for planning for state and regional growth and stabilization through an addition to the 701 planning assistance program, but with funds provided on a 90-10 basis. This fourth section also would authorize the Secretary of H.U.D. to provide financial assistance to state or regional planning agencies for land acquisition to control growth.

The 1970 Congress did not pass this Bill in its entirety due to the extreme changes necessary to implement

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[35]Ibid., Illustrated Business Week, 31 May, 1969, p. 51.

it. Congress did, however, make changes in existing legislation to increase the federal limitation on new community financing. The Ashley-Sparkman Bill was instrumental in bringing about the most recent new community assistance legislation--The Urban Growth and New Community Development Act of 1970, (Title VII, Housing and Urban Development Act, 1970).

This act did more than all previous legislation to provide comprehensive assistance to new community developers to overcome the key obstacles of land acquisition and front-end construction costs. The most important forms of assistance provided for in the Title VII program include the following:

> (1) Federal guarantees backing debt obligations issued by developers to pay for acquiring land, conducting initial development, and installing utilities. Such guarantees could be made up to $50,000,000 for any one project for one hundred percent of these costs for public developers and up to eighty-five percent for private developers. (This federal guarantee is essentially the same as that found in the 1968 New Communities Act except that the 1970 Act increased the total outstanding guarantee obligation from $250,000,000 to $500,000,000 and it made public agencies eligible recipients.)
>
> (2) Federal loans to cover the interest payments on money borrowed by developers for financing front-end costs, even when no federally guaranteed obligations are involved. Such loans can be made during the first fifteen years of the project's life with repayment within fifteen years after the date the loan is made.

> (3) Public service grants to local government bodies to help them pay for essential public services required in a new community before it has an adequate tax base.
>
> (4) Planning grants to pay up to two-thirds of all planning costs for public developers or two-thirds of special costs for private developers in excess of normal planning and feasibility studies.
>
> (5) Supplementary grants for public facilities added on to thirteen existing federal programs (such as water and sewer grants, library services and construction, airport construction, etc.) when they are used in approved new communities.[36]

Also under this program, the New Community Development Corporation (NCDC) was created to:

> aid in the development of new communities, to guide future urban growth, to carry out a program of grants and loans and loan guarantees, and to assist in the development of well-planned, diversified new communities, subject to the direction of the H.U.D. Secretary.[37]

The General Manager of the New Community Development Corporation works closely with its Board of Directors, presently headed by James Lynn as Chairman. Also on this board are: Floyd E. Hyde, H.U.D. Assistant Secretary; James M. Beggs, Under Secretary, Department of Transportation; and John C. Heimann, financial consultant.

This public corporation, to date, has little or no

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[36] _Urban Growth and New Community Development Act of 1970_, P.L. 91-609, December 31, 1970.

[37] "New Communities," _H.U.D. Challenge_, publication of the Department of Housing and Urban Development, (August, 1972), p. 6.

responsibility in the actual funding or building of new communities. It does, however, assist in the appropriation and administration of funds or guarantees for new communities under the Title VII program.

The Title VII program evidently made many changes to its two predecessors, the Urban Development Act of 1966, Title II, and the Housing Act of 1968, Title IV. The first major change was in response to a growing need to involve state and local government and other public agencies in the new community building process. There has been an increasing awareness that new communities are not only tools for implementing a National Urban Growth Policy but also tools for carrying out state and regional growth plans. Since these levels of government are needed in the new community building process, Title VII made public agencies eligible recipients of federal grants, loans, and loan guarantees for new community development. With these funds, state and local levels of government, through a public development corporation, can locate and develop new communities according to locally developed plans. Additionally, these public development agencies can use funds guaranteed by the state in the financing of new communities.

Secondly, Title VII increased loan guarantee limits from $25 million to $50 million for any individual new community and changed the aggregate total for all new communities from $250 million to $500 million.

The new community development program is designed to work with the developers of each new community and provide the assistance necessary to make it viable. Since each new community is different both physically and financially the federal program can be tailored to lend assistance not only from the grants, loans and loan guarantees outlined in Title VII but a developer can also receive the following aid:

> (1) He can secure federal grants of up to \$20 million to make interest payments on debts.
>
> (2) He may obtain grants to supply temporary educational, health and safety services prior to completion of permanent services.
>
> (3) He may receive supplementary grants for public facilities such as airports, libraries, colleges.
>
> (4) He may receive technical assistance from HUD planners.
>
> (5) He may receive financial assistance for planning related to social or environmental problems.[38]

Since no new communities had been assisted under earlier programs the Title VII program became the first federal assistance program to be used in developing new communities. Since the enactment of this program the following new communities have been started:

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[38]"New Hope for New Towns," Design and Environment, Spring, 1972, Vol. 3, Number 1, p. 29.

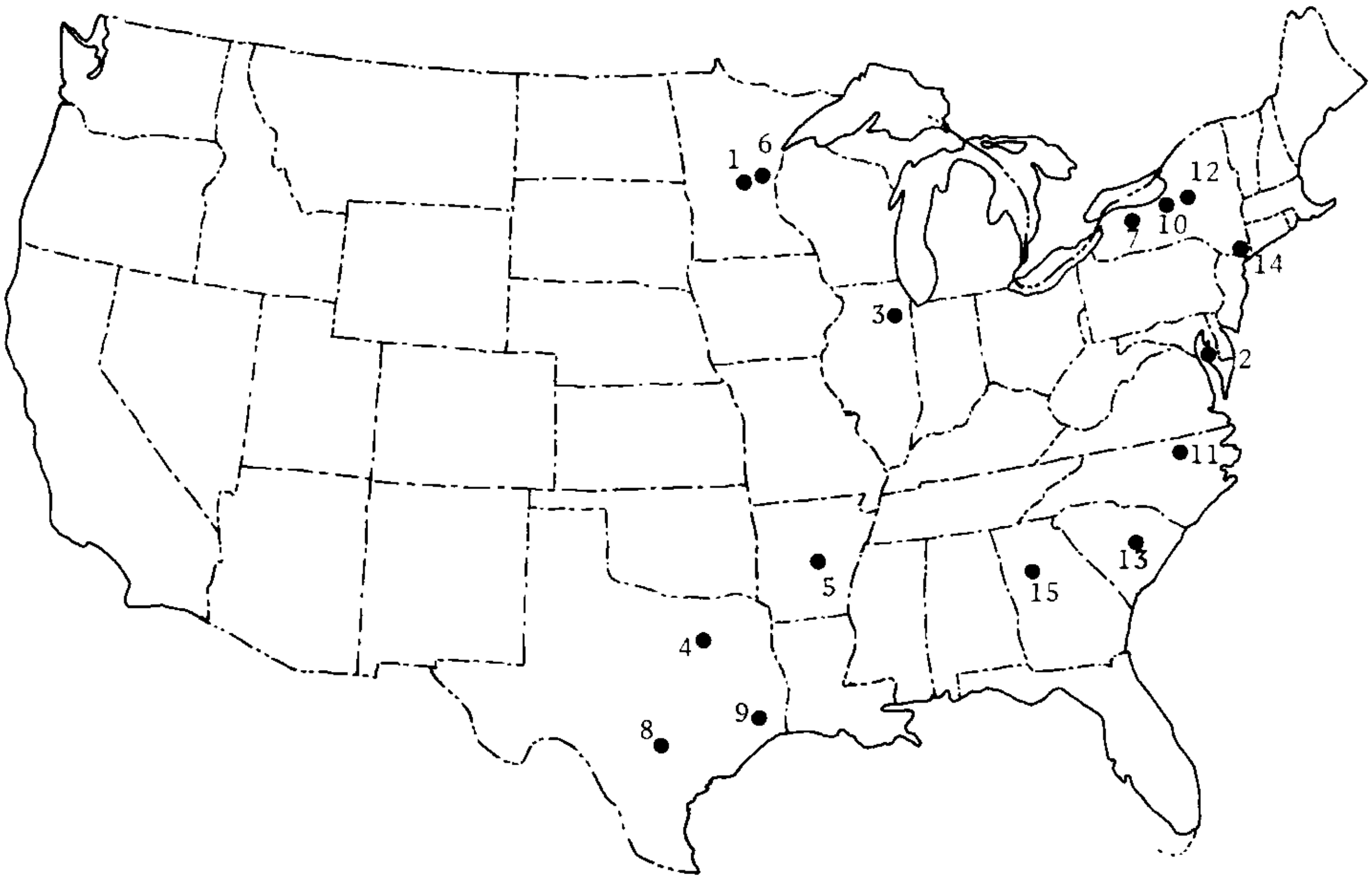
Table 1. Summary of New Communities Financing Guaranteed by HUD

Community Name	HUD Guarantee Commitment Amount	Issued Interest Rate	Supplementary Grant Reservations Amount	Population (Projected)
Jonathan, Minnesota	$21,000,000	7.20%	$216,000	50,000 20 yrs
St. Charles Communities, Maryland	$24,000,000	7.75%	$859,000	75,000 20 yrs
Park Forest South, Illinois	$30,000,000	7.00%	$176,000	110,000 15 yrs
Flower Mound, Texas	$18,000,000	7.60%	--	64,000 20 yrs
Maumelle, Arkansas	$ 7,500,000	7.62%	$330,000	45,000 20 yrs
Cedar-Riverside, Minnesota	$24,000,000	7.20%	--	30,000 20 yrs
Riverton, New York	$12,000,000	7.13%	--	25,600 16 yrs
San Antonio Ranch, Texas	$18,000,000	--	--	88,000 30 yrs
The Woodlands, Texas	$50,000,000	--	--	150,000 20 yrs
Gananda, New York	$22,000,000	--	--	50,000 20 yrs
Soul City, N. Carolina	$14,000,000	--	--	16,500 15 yrs
Lysander, New York	--	--	*	17,000 14 yrs

Table 1 (concluded)

Community Name	HUD Guarantee Commitment Amount	Issued Interest Rate	Supplementary Grant Reservations Amount	Population (Projected)
Harbeson, S. Carolina	$13,000,000	--	--	23,000 20 yrs
Welfare Island, New York	--	--	*	17,000 14 yrs
Shenandoah, Georgia	$40,000,000	--	--	70,000 20 yrs
Cumulative Total	$293,000,000	--	$1,581,000	--

*No federal guarantees used, instead received grants from thirteen various federal programs.



1. Jonathan Minnesota
2. St. Charles Communities, Maryland
3. Park Forest South, Illinois
4. Flower Mound, Texas
5. Maumelle, Arkansas
6. Cedar-Riverside, Minnesota
7. Riverton, New York
8. San Antonio Ranch, Texas
9. The Woodlands, Texas
10. Gananda, New York
11. Soul City, North Carolina
12. Lysander, New York
13. Harbison, South Carolina
14. Welfare Island, New York
15. Shenandoah, Georgia

Figure 1. Location of New Communities Financed by HUD

Public Development Corporations

The role of federal government in new community financing has changed during the past twenty-five years from that of a financier to that of a guarantor. Government in the United States no longer initiates large-scale development such as new communities but, instead, offers financial incentives to developers in the form of subsidies and long-term low interest rate loans. To date, only two public development corporations have been established to deal with the financing of new communities in the United States. The New Community Development Corporation was established under Title VII to administer federal assistance and to work with the developers of new communities in the completion of their plans. This corporation is not authorized to actually create plans and develop new communities; it is, instead, an administrative vehicle responsible to the Secretary of the Department of Housing and Urban Development.

The second and more unique, however, is the state sponsored development corporation in New York. The New York Urban Development Corporation, (UDC) as it is known, undertakes a variety of public programs but it is unique in that it is the only state sponsored corporation which actively participates in new community building. Resembling Title VII, the charter for the UDC was created by the New York State Legislators for the following reasons:

> The unaided efforts of private enterprise have not met and cannot meet the needs of providing such facilities (commercial, industrial and low to moderate income housing) due to problems encountered in assembling suitable building sites, lack of adequate public services, the unavailability of private capital for development in such urban areas, and the inability of private enterprise alone to plan, finance and coordinate industrial and commercial development with residential developments for persons and families of low income and with public services and mass transportation facilities.[39]

The Urban Development Corporation has been given a one billion dollar bonding limit by the State of New York. Much of this available capital is used in the development of new communities within the state. The primary use of this money is in the initial investment for land acquisition, site preparation and construction of streets, utilities and public facilities. It is the responsibility of private investors to apply their working capital to actual construction and development. Ultimately, the amount of private capital outweighs that of public funds in new community development. The UDC, therefore, provides the necessary balance between public and private interests by acting as a catalyst for development. It also ensures that private builders participating in the construction of new communities will maintain the highest standards of design and function.

It was asserted in Chapter II of this thesis that

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[39] The New York State Urban Development Acts of 1968, (June, 1970), p. 4.

housing subsidies were essential to the success of Great Britain's new towns program. Even though the UDC was modeled after Great Britian's Development Corporations, UDC has no subsidy programs available. Capital items such as site and construction costs are reduced through economies of scale or process streamlining by the UDC. These other methods are used in lieu of subsidies to absorb capital costs to reduce the burden of amortization.

The UDC's method of financing is based in the State Housing Finance Agency (HFA) which was established to serve as a public banking and financing authority. Capital is obtained from bonds guaranteed by a "Debt Service Reserve Fund."[40] This guarantee fund is maintained by the HFA in an amount "at least equal to all payments of interest and principal falling due during the ensuing calendar year."[41] With this fund the HFA can market bonds at one half of one percent less than was previously necessary. This arrangement leads to the savings of millions of dollars and thereby alleviating the need for subsidies.

The financing capacity of UDC makes it superior to most public agencies and private entrepreneurs.[42] The UDC is innovative also in that it is the first multipurpose

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[40] W. K. Reilley and S. J. Schulman, The Urban Lawyer, Pub: Section of Local Government Law, (1970), pp. 134-135.

[41] Ibid.

[42] Ibid.

public authority with power to initiate and carry out its own enterprises.

Summary

The United States Government has made many changes in its approach to financing and development of new communities. The government's first attempt at new community development was beset with financial difficulties. This first program, The Greenbelt New Town Program, was developed under an emergency act to aid victims of the Depression to find jobs and low-cost housing. The government, through the Resettlement Administration, located and purchased sites for the new towns, formulated plans and financed the development of them. Ensuing difficulties forced the federal government to sell or dedicate all federally owned land and facilities to the governments of these new towns.

During the past twenty-five years many new communities have been started by private corporations. Because of the nature of this type of development many of these corporations have had financial problems. New communities require a great amount of front-end capital for planning, land acquisition and the construction of basic facilities. Additionally, new communities are long-term projects. The developers of new communities do not begin to see a profit for up to ten to fifteen years after the beginning of the project. Because of this time lag, lending institutions sometimes are reluctant to lend developers the required capital to finance their projects.

In response to the evident financial difficulties of these private developers, the federal government started a program, Title II of the Urban Development Act of 1966, to assist private developers with federal loans and grants for some public facilities. Title IV of the Housing Act of 1968 broadened the scope of financial assistance to include federal guarantees for bonds, debentures, notes, and other obligations issued by developers of new communities. These guarantees could not exceed $25 million for any single new community nor $250 million total in assistance for all new communities. Title VII of the Urban Growth and New Community Development Act of 1970 amended Title IV to raise the guarantee limitations to $50 million for each new community and $500 million total for all new communities. Title VII also amended the program to allow public agencies to be eligible recipients of federal assistance.

Without the incentive of financial assistance many developers might not attempt this type of project because of the financial difficulties of many other new community developers. It is evident that the federal government can change the amounts and types of assistance available for new community developers and can tailor its assistance program to meet the needs of individual projects. Additionally, the federal programs can be tailored to meet the needs of state and local government. As pointed out above state and local government through public corporations can receive federal assistance for new communities. The New York Urban Development Corporation, for example, is one such public agency implementing the State's growth plan with new communities. To date two new communities, Welfare Island and Lysander, New York, are being developed by the Urban Development Corporation with federal assistance provided under Title VII of the Urban Growth and New Community Development Act of 1970. The Urban Development Corporation is unique in that it is presently the only state sponsored corporation undertaking the development of new communities.

The federal assistance program for new communities is not a panacea by any means. A great many developers are reluctant to accept this federal assistance because of the "strings attached." Federal regulations require of federally assisted new communities the provision of at least 20 percent low and moderate income housing and an open occupancy program. Such federal requirements could potentially hurt a developer's profit since there is still some prejudice against minority groups living in predominantly white Anglo-Saxon areas. As these prejudices begin to fade and as the costs for development continue to rise, more developers may become interested in federal assistance and in new community development.

CHAPTER IV

AN ANALYSIS OF GOVERNMENTAL ROLES IN NEW COMMUNITY FINANCING

Chapters II and III of this thesis have analyzed the involvement of governments in several European countries and the United States. From this analysis three major categories of government involvement in new community financing can be discerned--maximum government involvement, moderate government involvement, and minimum government involvement. The governments of each of these countries can be placed in one of these categories by analyzing its activity in various elements of its new community program. In order to find a common denominator for each program it was necessary to specify activities or elements of new community building common to all. These activities or elements are as follows: land acquisition, planning, public buildings, public utilities, housing, commercial facilities, industrial facilities, open space and recreation. Tables 2, 3, and 4 examine major sources of funding for each country, methods for administrating and managing these funds, and of government participation in each activity or element described above. A discussion follows these tables placing each country into one of the three categories.

Table 2. Primary Sources of Funds

Countries and Activities	Government Grants, Loans	Private Enterprise-Conventional Loans	Local Gov't Taxes or Bonds
Britain			
Land Acquisition	x		
Planning	x		
Public Buildings	x		x
Public Utilities	x		x
Housing	x		x
Commercial		x	
Industrial	x		
Open Space-rec.	x		
Sweden			
Land Acquisition		x	x
Planning		x	
Public Buildings	x		
Public Utilities	x		
Housing	x		
Commercial		x	
Industrial		x	
Open Space-rec.		x	
France			
Land Acquisition	x		
Planning	x		
Public Buildings	x		
Public Utilities	x		
Housing		x	
Commercial		x	
Industrial		x	
Open Space-rec.		x	
Finland			
Land Acquisition		x	
Planning	x	x	
Public Buildings		x	
Public Utilities		x	
Housing	x	x	
Commercial		x	
Industrial		x	
Open Space-rec.		x	

Table 2 (concluded)

Countries and Activities	Government Grants, Loans	Private Enterprise Conventional Loans	Local Gov't Taxes or Bonds
United States			
Land Acquisition		x	
Planning	x	x	
Public Buildings			x
Public Utilities	x	x	x
Housing	x	x	
Commercial		x	
Industrial		x	
Open Space-rec.		x	x

Table 3. Administrative Vehicles

Countries and Activities	Public Corporation	Non-Profit Corporation	Private Corporation
Britain			
Land Acquisition	x		
Planning	x		
Public Buildings	x		
Public Utilities	x		
Housing			x
Commercial			x
Industrial			x
Open Space-rec.			x
Sweden			
Land Acquisition			x
Planning		x	
Public Buildings	x		
Public Utilities	x		
Housing		x	
Commercial			x
Industrial			x
Open Space-rec.		x	
France			
Land Acquisition	x		
Planning	x		
Public Buildings	x		
Public Utilities	x		
Housing		x	
Commercial		x	
Industrial		x	
Open Space-rec.		x	
Finland			
Land Acquisition			x
Planning			x
Public Buildings			x
Public Utilities			x
Housing			x
Commercial			x
Industrial			x
Open Space-rec.			x

Table 3 (concluded)

Countries and Activities	Public Corporation	Non-Profit Corporation	Private Corporation
United States			
Land Acquisition			x
Planning			x
Public Buildings	x		
Public Utilities	x		
Housing			x
Commercial			x
Industrial			x
Open Space-rec.			x

Table 4. Governmental Roles in New Community Financing

Countries and Activities	Government as Developer	Government as Supporter	Government as Non-Participant
Britain			
Land Acquisition	x		
Planning	x		
Public Buildings	x		
Public Utilities	x		
Housing		x	
Commercial'			x
Industrial		x	
Open Space-rec.	x		
Sweden			
Land Acquisition			x
Planning			x
Public Buildings	x		
Public Utilities	x		
Housing		x	
Commercial			x
Industrial			x
Open Space-rec.			x
France			
Land Acquisition	x		
Planning	x		
Public Buildings	x		
Public Utilities	x		
Housing			x
Commercial			x
Industrial			x
Open Space-rec.			x
Finland			
Land Acquisition			x
Planning		x	
Public Buildings			x
Public Utilities			x
Housing		x	
Commercial			x
Industrial			x
Open Space-rec.			x

Table 4 (concluded)

Countries and Activities	Government as Developer	Government as Supporter	Government as Non-Participant
United States			
Land Acquisition	x		
Planning	x		
Public Buildings	x		
Public Utilities	x		
Housing	x		
Commercial			x
Industrial			x
Open Space-rec.	x		

Maximum Government Involvement

The only country analyzed in this thesis which the author feels exemplifies a maximum government involvement in its new community program is Great Britain. Similarly, Daniel R. Mandelker feels that,

> The English new town program probably incorporates the maximum amount of governmental direction acceptable in any society that avoids direct limitations on population movement.[43]

The foregoing analysis has shown that the British government's primary role is its financial function in that it finances or at least has loans available for every aspect of new community development except commercial development. Table 2, Primary Sources of Funds, shows that of the five countries analyzed only Great Britain has assistance available for most of the activities to be financed in building a new community. The public corporation, as shown in Table 3, is the primary administrative vehicle for the financing of land acquisition, planning, public buildings, and public utilities. Finally, Table 4 characterizes the British government as the primary developer of most of the basic elements of a new community. Great Britain, when compared with the other four countries, clearly has the greatest amount of governmental involvement in the financing and building of new communities.

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[43] S. B. Warner, Planning for a Nation of Cities, (Cambridge, Massachusetts: MIT Press, 1967), p. 217.

Moderate Government Involvement

A moderate involvement is generally characteristic of those governments which are in partnership with private developers in pursuit of new community building. This intermediate role for governments would also be characterized by one attempting to create a balanced system in which both government and private industry play major roles in developing new communities. France has the most notable example of this type of partnership. The French government, or the designated public agency, performs the major task of land acquisition, planning, construction of public buildings and public facilities (see Table 2). Private developers are responsible for actual development of housing, commercial establishments and industrial facilities. Although there is a strong governmental commitment in particular activities, their financing program does not approach the scale found in Great Britain. The French program must, therefore, be considered moderate.

The government of the United States must also be considered to have a moderate role. Although financial assistance is made available to both public and private developers, it is limited to particular activities and usually consists of loan guarantees. As in the case of Great Britain many grants and subsidies were made available to developers. This has not been the case in the United States because grants have been given in only four new communities so far.

Table 3 shows clearly that the primary administrative vehicle in developing new communities in the United States has been the private corporation. Similarly Table 4 shows that the basic role of the U. S. government has been that of a "supporter" or guarantor. It is important to note that our government has only assumed this role in new community developments in which the developer already had a large tract of land, could demonstrate the feasibility of his project and who would agree to meet all federal stipulations. According to S. B. Warner in his book, Planning for a Nation of Cities much of the problem involves not only inadequate public policy but also inexperienced private developers. More specifically he states:

> Clearly, new community building by the private sector has been hampered by limitations in its own structure, lack of experience, and conservative investment objectives as well as inadequate public policy. As a part of a national urban policy, new communities in undeveloped regions or satellites to existing urban centers are not possible until such constraints are overcome.[44]

Sweden also falls into the category of moderate government involvement. The Swedish Government does make available certain loans and grants for public facilities and housing but the majority of new community building and financing is done by their non-profit organizations (see

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[44] Ibid., p. 26.

Tables 2 and 3). The government in Sweden does not participate in such activities as land acquisition, planning and development of commercial and industrial sites as shown in Table 4.

Minimum Government Involvement

A government which is minimally involved in new community financing is herein defined as that government which merely tolerates new community development or provides little financial support for organizations engaged in that type of development. Finland exemplifies this situation because private enterprise in that country operates almost independently of any governmental involvement in new community financing. In Table 2 it is evident that the only governmental assistance available is for the planning of new communities and certain housing subsidies. In Table 3 it is shown that the only administrative vehicle for new communities is the private corporation. Finally, in Table 4, the Finnish government is classified as a non-participant in all activities except for its support in planning and housing subsidies. This assistance, primarily in the form of loans, has aided in gaining high levels of home ownership in Tapiola. There are, however, no grants or loans available for basic utilities or land acquisition which have been the major obstacles in new community development.

Summary

The role which a government plays in new community financing or the amount of financial assistance it gives developers is relevant only in terms of comparing one country's program with another. It is important that such comparisons be made so that each country may learn from the experience of others. The classifications in this chapter of maximum, moderate and minimum government involvement was not intended to imply that more governmental involvement in new community financing is good or bad. A greater amount of government involvement in new communities in one country may not be necessary or even appropriate in another.

In this chapter a comparison was made between the five countries analyzed in the thesis. Using new community building activities as a common denominator a comparison of each country's primary sources of funding, primary administrative vehicles and governmental role was made for each element. It was thereby concluded that Great Britain's government has a maximum involvement in new community financing. Similarly, the governments of the United States, France, and Sweden are moderately involved and Finland's government is minimally involved in new community financing.

CHAPTER V

ALTERNATIVES FOR THE FEDERAL GOVERNMENT'S ROLE IN NEW COMMUNITY FINANCING

Previous chapters have pointed out that government in the United States is moderately involved in new community financing, however, this role is not mandated. If attitudes and needs demand change this role will surely change. Within the framework of our federal government and basically capitalistic private business sector several alternatives are possible for our government's role in the financing of new communities.

The first alternative could be to establish a public development corporation or strengthen the New Community Development Corporation established under Title VII to afford it powers similar to an urban renewal agency.

A second alternative could be for the federal government to place greater emphasis on its financial assistance for state and local development corporations such as the New York Urban Development Corporation.

An examination of these alternatives is, therefore, necessary due to, (1) serious doubts being raised concerning the ability of private enterprise to undertake alone the financing and building of new communities in a national context; (2) serious limitations on the amount and type of federal assistance presently available for new communities; and (3) stringent requirements which must be met by applicants and recipients for new community assistance. With these problems in mind the following alternatives to our present system are presented.

A National New Community Development Corporation

Title VII of the 1970 Urban Growth and New Community Development Act has provided for a public development corporation to oversee new community development in the United States. This corporation is extremely limited in its function and authority. The New Community Development Corporation is charged with the responsibility of administering certain guarantees for indebtedness on the part of private developers of new communities. It is conceivable that the New Community Development Corporation could be given greater authority such as the authority to: buy land for new communities (with powers of eminent domain); formulate plans; install basic facilities; and sell or lease back the improved land to private developers. Actually, this approach would be very similar to urban renewal except that the basic objective would be to build new communities instead of remove blighted areas of existing ones. Where urban renewal efforts often write down land at a loss the New Community Development Corporation could come out ahead.

That is, since new communities are usually located within or immediately surrounding major growth centers with rising land values, this public development corporation could sell or lease improved land at a profit. This profit could then be placed in a revolving fund to help finance roads, sewers, and schools in more new communities.

This type of arrangement would not alleviate the need for additional grants, loans and guarantees because private developers are still faced with difficult financing problems. The present program of guarantees, loans and grants could help relieve this pressure on developers making new communities more financially feasible.

The American Institute of Planners recently recommended,

> the creation of a federal entity, a New Community Development Agency, capable of building new communities in a defined set of circumstances and situations.[45]

The structure of this corporation could resemble that of NASA, representing the more conventional organization; TVA, an organization with more independence; or, COMSAT, a semi-public corporation.

This corporation should be eligible for participation in all other agency programs related to new community development and should receive funding similar to any private corporation, state or local agency. Seed money could, however, be provided by the federal government or the public

[45] Ibid., p. 32.

at large. As pointed out by the AIP, its sphere of action should be limited to existing federal land holdings which might appropriately be used as new community sites. New community construction on non-governmental lands should be left to state and local new community development agencies.

Either of these public development corporations bestows a great deal more authority to an agency at the federal level than is now the case. Because land acquisition poses the greatest problem to private developers a national corporation could assume this responsibility and thereby relieve new community developers of this burden.

State and Local Development Corporations

Many people feel that the federal government should not be involved in the actual planning and financing of new communities. This attitude stems partly from experience with the financially unsuccessful Greenbelt new towns program and partly from the amount of authority which the federal government could potentially exercise.

An alternative would be to rest this authority at the state or local level. As in the case of a federal new community development corporation, a state or local organization could take the form of an independent authority, public corporation or a semi-public corporation. In most cases the corporate form would be preferable because new community financing, especially land acquisition and housing, is generally not a function of local government. The authority or corporation could be funded from state sources sufficient to finance the planning and acquisition of land for new communities. Further capital needed for development could be secured by the sale of state-backed bonds or conventional loans backed by federal guarantees.

This arrangement would necessitate state cooperation with local government for the provision of public utilities and roads. If local government is not capable of financing the installation of public services then state enabling legislation could be changed to allow special public districts. Community facilities could then be financed by floating tax-exempt municipal bonds. Also the corporation could have the power to finance its own improvements with user charges.

The New York Urban Development Corporation, cited in Chapter III is the only example of a state chartered development corporation. The role of this state chartered development corporation is one of a development catalyst whereby the state's investment is returned and placed into a revolving fund which is used to initiate more new communities.

The American Institute of Planners affirms that state and local government must play an important part in new community development, however, the financial limitations of state and local government makes it difficult for them to initiate large-scale new communities without federal assistance or reasonable assurance of ample private capital.

As examplified by the New York Urban Development Corporation a number of opportunities exist for direct and indirect state financial contributions to new community development. It may, therefore, be desirable to use both federal and state financial programs with private capital in the building of new communities.

Indirect methods of providing assistance to new community developers could be through tax-relief. Since the federal government is primarily involved with taxation of corporate incomes it really does not have the ability to provide tax-relief that would, for example, encourage an industry to locate in a new community. The state and local governments, on the other hand, are involved in the taxation of property and physical facilities. At these levels of government there is an opportunity for indirect assistance to new communities through such tax-relief measures as payments in lieu of tax, tax rebate, deferred taxation or tax waivers. Furthermore, state operational budgets and capital improvement programs could give priority to state agencies involved in new community financing. State government could establish loan and/or grant programs that could be used to match federal new community assistance programs in the areas of housing, water and sewer system and transportation.

It would be necessary in most states to form a public or non-profit development corporation to accept financial assistance. Most states, however, have not passed legislation which allows for this type of corporation and therefore could not undertake new community development in the manner stated above. At the present time the New York Urban Development Corporation is the only state-backed development corporation which can obtain federal financial assistance for new communities.

There are evidently a number of measures which could be taken by the federal government or state and local governments to assist in the development and financing of new communities. While the federal government is becoming more responsive to the need for new communities the program, as a whole, is still small-scale when compared with the need for new housing. With the alternatives available it need not take a housing crisis in this country before a large-scale new community development program can be implemented.

Summary

In Chapter V two alternatives were presented for the existing financial assistance program for new communities. Neither of the alternatives would require major program changes at the federal level. Either of the two basic alternatives or both could be used with the existing financial assistance program to provide greater incentive for public-private partnerships in new community development.

In addition to just financial assistance, federal surplus land could provide a tremendous incentive for new community development. Similarly, opportunities exist for state and local assistance to new community developers in the form of tax-relief. It need not take a major housing crisis for government to become more responsive to developers of new communities. With alternatives such as those presented above the existing new community assistance program could be modified and a larger-scale program initiated for the financing and building of new communities.

CHAPTER VI

CONCLUSIONS

> Arrangements and procedures appropriate to the financing of planned communities will inevitably vary in different countries, depending on the legislative, administrative and financial background in each country.[46]

It, therefore, can be discerned that there is no proper role or "best" method of new community financing which could be recommended to any given country. Differing circumstances in each country require each country to evaluate its new community financing and development program in light of its goals and objectives and devise programs adequate to meet those goals and objectives.

It is evident that in the United States the federal government, as well as state and local government, must share in the responsibility of ensuring successful development of new communities. It also can be assured that the roles of federal, state and local government will seek their own level of involvement as the country experiences more failures or successes of private developers. This can be exemplified in American history through the dramatic change

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[46] Financing New Communities, U. S. Department of Housing and Urban Development, Office of International Affairs, p. 1.

in the federal role during the New Deal period and the recent New Community Development Acts. The reasons for federal involvement in the New Deal Greenbelt Towns were:

> (1) To provide low-rent housing in both socially and physically healthful surroundings for families in the low-income bracket.
>
> (2) To demonstrate the soundness of planning and operating towns according to certain garden city principles.
>
> (3) To give useful work to men on unemployment relief.[47]

During the 1960's and 1970's the federal government devised programs offering assistance for the development of new communities to:

> (1) Relieve population densities in major metropolitan areas;
>
> (2) Demonstrate the construction of housing for people with a wide range of incomes;
>
> (3) Make possible new efficiencies in construction, land development, and municipal services; and
>
> (4) Enlarge the entire scale of the building process.[48]

The shift of emphasis reflects economic changes which have occurred in the United States during the past forty years. The Greenbelt program was concerned with the

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[47] Clarence S. Stein, Toward New Towns for America, (New York: Reinhold, 1957), p. 73.

[48] "President Lyndon B. Johnson's 1966 Message to Congress on Demonstration Cities Program," Congressional Record, January 26, 1966.

immediate problems of providing low-rent housing and jobs; whereas, the thrust of recent federal programs has been to encourage private developers to build bigger and better new communities to meet the needs of our rapidly expanding population. This reflects the needs of prosperity; the Greenbelt towns reflected the needs of the Depression era.

The most important lesson learned from the U. S. experience in new community building is that all levels of government and private developers must work together. Experience has shown that neither the government nor private developers have been highly successful in trying to build new communities alone. Federal assistance must be used to encourage and assist private developers, while development activities such as planning, construction and marketing must be left to private management. Without this profit motive, developers would not pursue this type of development.

In light of foregoing analysis on the subject of the federal role in new community financing in the United States, a number of conclusions can be made. It must be understood, however, that these conclusions are relative to the present political, social and economic situation in this country and that a major change in these forces could alter conclusions made at this time. The conclusions are as follows:

(1) <u>The federal government has a vital role in the financing of new communities</u>. Recent history indicates a general inability of private development to initiate and

sustain the financial requirements of new community building. Many new communities, not only in America but also in other countries, have been started by private enterprise and due to the lack of either front-end and/or sustaining finances have had to seek financial aid from other sources. In the case of Reston, Virginia, and Columbia, Maryland, financial assistance was available from large corporations, but at a definite disadvantage to the original developers. If financial guarantees are made available to new community builders and if the "strings attached" are not overly stringent then financial sources can be sought by private enterprise without a great loss in profit. Furthermore, technical assistance and certain categorical assistance programs make the federal government a potentially good partner of private enterprise.

(2) Federal government has much flexibility for selecting a role in new community financing. Our federalized system of government gives the national level of government many potential partners for sharing the responsibility for new community assistance. The identifiable levels of government or governmental agencies are: multi-state regional authorities (i.e. Appalachian Regional Commission); state government; multi-county regional authorities (i.e. Maryland--National Capital Park and Planning Commission); county government; and city government. Depending upon the nature of a proposed new community, any combination of the

above mentioned levels of government could or should be involved in a financial assistance program.

Similarly, our federal government is free to work with non-governmental bodies such as public corporations, quasi-public corporations, non-profit corporations, and private corporations. The fact that our federal government is not mandated to any particular role in financing new communities gives it more flexibility than is the case in most any other country.

(3) <u>Greater federal government involvement is not necessarily the answer to correct problems associated with financing new communities</u>. During the past few years our federal government has assumed more responsibility for assuring financial feasibility of new communities. This trend is evidenced by the changes made since the New Community Development Act of 1966. Subsequent new community acts have provided more money for grants, loans and guarantees for individual projects as well as the total amount of money available for all projects. These more recent acts have also been changed to allow public agencies to apply for financial aid for proposed new communities.

This greater governmental involvement has, however, brought about many problems. For example, federal guarantees offer the full faith and credit of the United States Government which should attract many financial resources for new community developers. However, the developer's obligations under the guarantee program often scare away potential lenders in that the federal requirements adversely affect a developer's profit margin, hence, the viability of the project.

Federal financial assistance should continue to be available for those developers who desire or need it. Similarly, these programs should remain optional for developers because it is doubtful whether a governmentally controlled new communities program such as found in Great Britain could function in the United States.

(4) <u>The federal government is seeking more state and local government involvement in new community financing</u>. Early attempts at new community financing taught the federal government that state and local government should be involved in building new communities. For example, local government has usually had the responsibility for providing public facilities to growing municipalities. The Greenbelt new town program exemplifies the lack of local involvement because there were financial problems with public facilities. The federal government has, therefore, attempted to coordinate new community growth with that of adjacent communities through its water and sewer grant and loan program or other programs. Grants and loans under these programs often do not go directly to the new community, but instead, go to some existing governmental entity which assumes the responsibility for extending its public facilities to the new community.

Cedar Riverside, Minnesota, for example, received most of its water and sewer lines from the city of Minneapolis. Similarly, Jonathan, Minnesota, was constructed adjacent to the town of Chaska. Chaska made application and received a grant from the Department of Housing and Urban Development to pay for all necessary water and sewer extensions and improvements to their treatment plants. The grant received by Chaska was on a 50/50 matching basis which meant that much of the financing had to come from local government.

(5) Federal surplus land will become increasingly important to developers of new communities. It has been pointed out repeatedly that the financing of land assemblage is one of the primary obstacles in new community development. Land, in large contiguous parcels, is becoming difficult to obtain and even more difficult to purchase. The federal government, however, owns a great amount of land which is presently being used or, as the case may be, not being used for military installations and reservations. It is feasible that much of this land, if properly located, could be used for the development of new communities. If the land remains in public ownership there will undoubtedly be many restrictions charged to any potential new community developer. It is, however, possible that a pursuasive developer could buy or lease federal surplus land for the purpose of new community development.

(6) The role of federal government in new community

financing will continually change. It has been pointed out in the Urban Growth and New Community Development Act of 1970 that in America there is a growing need for new communities to help relieve the over-population in many of our urban areas.[49] Because of this need, political pressures are constantly being exerted to change existing federal programs dealing with new communities. This is evidenced by the increasing levels of financial assistance available under the New Community Development Acts of 1966, 1968 and 1970. This indicates a popular support for changing the new communities program resulting in political pressure for changing new community legislation. It is, therefore, probable that the role of government in the financing of new communities will continue to change in the United States.

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[49] Urban Growth and New Community Development Act, 1970, Title VII, Sec. 702.

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